

# FISCAL NOTE

**Bill #:** SB0289                      **Title:** Revise formula for video gambling machine taxation

**Primary Sponsor:** Ellingson, J                      **Status:** As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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## **Fiscal Summary**

	<b>FY 2004 <u>Difference</u></b>	<b>FY 2005 <u>Difference</u></b>
<b>Revenue:</b>		
General Fund	\$37,899,814	\$38,657,911
State Special Revenue	(\$62,500)	(\$62,500)
<b>Net Impact on General Fund Balance:</b>	\$37,899,814	\$38,657,911

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|---|--|
| <input type="checkbox"/> Significant Local Gov. Impact<br><input type="checkbox"/> Included in the Executive Budget<br><input type="checkbox"/> Dedicated Revenue Form Attached | <input checked="" type="checkbox"/> Technical Concerns<br><input checked="" type="checkbox"/> Significant Long-Term Impacts<br><input type="checkbox"/> Needs to be included in HB 2 |
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## **Fiscal Analysis**

### ASSUMPTIONS:

#### **Department of Revenue**

1. This fiscal note pertains only to the impact on video gaming revenue generated from the gross machine income tax.
2. Under current law, a licensed machine owner pays a video gambling machines tax of 15% of the gross income from each video gambling machine.
3. Under this proposal, beginning July 1, 2003, a licensed machine owner pays a video gambling machines tax of 10% of the gross income from each video gambling machine that is on a licensed premises having five or fewer machines. A licensed machine owner pays a video gambling machines tax of 30% of the gross income from each video gambling machine that is on a licensed premises having six or more machines.
4. This bill will generate new revenue to the state general fund of \$37,899,814 in fiscal 2004 and \$38,657,911 in fiscal 2005.
5. The impacts in assumption four are calculated using a model developed by the Department of Revenue (DOR) using the fiscal 2002 video gambling database provided by the Department of Justice.
6. This proposal has no impact on Department of Revenue administrative expenses.

#### **Department of Justice**

7. Assume that passage of this bill will not impact average machine income reported by location operators. Specifically, the average machine income reported by gambling operators who permit five or fewer and those who permit six or seven machines will not change as a result of passage of this bill.

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(continued)

8. Because the average machine income reported by some operators who permit six or seven machines is limited and passage of this bill would change tax rates for locations with five or fewer machines to 10% and those with six or more machines to 30%, it is assumed that it will not be economically feasible for some operators to continue to permit more than five machines.
9. Assume the number of machines gambling operators will no longer permit because of the increase in tax rates that result from passage of this bill will be 625.  $625 \times \$200/\text{permit fee} = \$125,000$  which would result in a loss to state special revenue of \$62,500 and a loss to local governments of \$62,500 per year.

### **FISCAL IMPACT:**

	<b><u>FY 2004</u></b>	<b><u>FY 2005</u></b>
	<b><u>Difference</u></b>	<b><u>Difference</u></b>
<b><u>Revenues:</u></b>		
General Fund (01)	\$37,899,814	\$38,657,911
State Special Revenue (02)	(62,500)	(62,500)
<b><u>Net Impact to Fund Balance (Revenue minus Funding of Expenditures):</u></b>		
General Fund (01)	\$37,899,814	\$38,657,911
State Special Revenue (02)	(62,500)	(62,500)

### **EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:**

1. One-half of the video gambling machine permit fees collected by the state is distributed to local governments. A reduction in number of machines permitted and permit fees will result in a reduction in fees distributed to local governments. Under the assumptions contained in this fiscal note, the amount distributed to local governments will also decrease by \$62,500 per year.

### **LONG-RANGE IMPACTS:**

2. Revenue generated from the video gambling gross machine income tax will continue to be greater than under current law by \$39 million per year.

### **TECHNICAL NOTES:**

#### **Department of Revenue**

1. The estimates provided in this fiscal note could change considerably depending upon how many establishments and machines are using the automated accounting and reporting system (AARS) and the business decisions made by the establishments on how many machines they will choose to have active on their premises in the forecasted period.

#### **Department of Justice**

2. Basing the increase in tax rates on the number of machines in a location could result in income inequities. On average, locations offering five machines or fewer report less income by machine and in total than those who offer/permit more than five. However, that is the average. There are some locations that permit/offer five or fewer machines who report more income by machine and location than some with more than five. Under the provisions of this bill those who make more with fewer machines will still pay the lower rate.
3. Permit fees designated as state special revenue to be used to pay for the cost of regulating gambling in this state, ninety percent (90%) of which is video gambling machine permit fees, have been insufficient to cover amounts appropriated to the Gambling Control Division over the last biennium. Passage of this bill would reduce state special fees even further, making it even more difficult to maintain an effective regulatory agency.